



Pacific Gas and Electric Company  
Case No. 01-30923 DM

**Final Report of Professional Fees and Expenses  
Inception of Chapter 11 Case to Effective Date of Reorganization Plan  
April 6, 2001 - April 12, 2004**

Prepared by  
Office of the United States Trustee  
San Francisco, California  
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Pacific Gas and Electric Company  
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Final Report of Professional Fees and Expenses

Pacific Gas and Electric Company ("PG&E") filed Chapter 11 on April 6, 2001. On April 12, 2004, PG&E's reorganization plan became effective and the company emerged from Chapter 11. The reorganization plan, which was ultimately confirmed, incorporated the settlement agreement which had been reached between PG&E, its parent, and the California Public Utilities Commission. PG&E paid approximately \$8.4 billion in cash to creditors holding allowed claims and placed approximately \$1.8 million in escrow pending resolution of disputed claims.

This is the Office of the U.S. Trustee's final report of professional fees and expenses incurred in Pacific Gas and Electric Company's bankruptcy. Although the Bankruptcy Court has retained jurisdiction on certain matters related to the interpretation of the settlement agreement, reorganization plan and the resolution of creditors' claims, there will no longer be oversight of professionals' fees and expenses either by the Bankruptcy Court or the Office of the United States Trustee for fees and expenses incurred after April 12, 2004 - the effective date of the plan.

● Final Fees and Expenses

There will be a final round of hearings commencing in September, 2004 in which professionals employed in the bankruptcy case seek final approval of their fees and expenses and other parties in the case seek reimbursement based on assertions of substantial contribution to the success of the case. The final requests include fees and expenses incurred during the last period of December, 2003 - April 12, 2004.

For the purposes of this report, fee applications are categorized as follows: [a] applicants who filed regular fee applications every four months ("Regular Applicants"); [b] applicants who filed a single fee application at the end of the case ("One-Time Applicants"); [c] applicants seeking success or transaction fees ("Success Fee Applicants"); and [d] applicants who are seeking reimbursement asserting substantial contribution to the case pursuant to §503(b) of the bankruptcy code ("503(b) Applicants). The fees and expenses which are being sought in this final round of hearings and which have been incurred in the case since its inception are:

Fee Application and Period Covered		Hours	Fees	Expenses	Total	% of Total
<b>Regular Applicants</b>		(*-minor adj from previous report)				
1st	April - July, 2001	37,802.7	\$12,862,388*	\$720,069*	\$13,582,457	9.89 %
2nd	August - November, 2001	40,235.1	14,548,868*	947,596	15,496,464	11.29%
3rd	December, 01 - March, 02	53,463.0	16,967,095	975,666	17,942,761	13.07%
4th	April - July, 2002	52,621.4	16,571,127	739,226	17,310,353	12.61%
5th	August - November, 2002	73,274.9*	22,593,873	1,349,316	23,943,189	17.44%
6th	December, 02 - March, 03	59,491.5	18,311,253	1,496,514	19,807,767	14.43%
7th	April - July, 2003	28,481.8	9,906,453	422,057	10,328,510	7.52 %

Fee Application and Period Covered		Hours	Fees	Expenses	Total	% of Total
Regular Applicants, Continued						
8th	August - November, 2003	25,511.0	8,713,812	483,402	9,197,214	6.7%
9 <sup>th</sup> & Final	Dec. 03-April 12, 2004	24,064.8	9,145,038	547,088	9,692,126	7.06%
Total - Regular Applicants		394,946.3	\$129,619,907	\$7,680,934	\$137,300,841	100%/50.93%
One-Time Applicants		327,699.7	\$ 66,007,010	\$9,282,027	\$ 75,289,037	- /27.93%
Success Fee Applicants		N/A	\$ 28,751,037	N/A	\$ 28,751,037	-/10.66%
503(b) Applicants		53,075.7	\$ 24,173,597	\$4,083,831	\$ 28,257,428	-/10.48%
Total 4/1/01 - 4/12/04		775,721.6	\$248,551,551	\$21,046,792	\$269,598,343	-/100%
Disallowances or Adjustments			(720,824)	( 720,824)		
Final Amounts Sought by Applicants		775,721.6	\$268,877,519	\$268,877,519		

Exhibit A , entitled *Summary of Professional Fees - All Firms*, sets forth the amounts sought by each professional in the PG&E case and also identifies each as regular, one-time, success fee, or 503(b) applicant.

- Final Estimate of the Cost of PG&E's Chapter 11 Bankruptcy through Effective Date of Plan

The \$268.8 million figure set forth above does not reflect all the professional fees and expenses incurred in PG&E's Chapter 11 bankruptcy. Some of the other costs which are not reflected above include:

The Utility's parent, PG&E Corp, estimated that it expended \$128 million as of September 30, 2003. Pursuant to the Utility's confirmed plan, PG&E Corp will bear the \$128 million and presumably any additional fees and expenses related to the Utility's bankruptcy which it incurred from October 1, 2003 to April 12, 2004.

The Utility's underwriting agreement with UBS Warburg LLC and Lehman Brothers provided for a payment of \$43,475,000 in underwriting fees related to the \$6.7 billion public bond offering which would, for the most part, fund the payments to PG&E's creditors.

There were also earlier reported plan implementation expenses incurred as PG&E operationally worked towards its abandoned dis-aggregation plan.

Conservatively, the U.S. Trustee estimates the cost of PG&E's bankruptcy through the effective date of the plan to be between \$450 to \$475,000,000. (Theoretically, that estimate should be reduced by the amount of interest the Utility earned on the large cash reserve it accumulated during the bankruptcy case.)

<b>CONSERVATIVE ESTIMATE OF COST OF PG&amp;E'S CHAPTER 11 BANKRUPTCY thru 4/12/04</b>	
Professional fees and expenses, subject to final approval of the Bankruptcy Court, as scheduled above	\$268,877,519
Parent PG&E Corp's estimated fees/expenses <i>as of 9/30/03</i>	128,000,000
Underwriting fees related to \$6.7 billion public bond offering	43,475,000
<b>Sub-total</b>	<b>\$440,352,519</b>
Compared to utility reorganization expenses reported in SEC filings (2001 - \$97 million; 2002 - \$155 million; 2003 - \$160 million)	\$412,000,000 @ 12/31/03
<b>Final Estimate of Cost of Chapter 11 Bankruptcy through the effective date of the plan (4/06/01 - 4/12/04)</b>	<b>\$450 - \$475,000,000</b>

- Electronic Transmission of Detailed Time and Expense Entries

With a few exceptions, the firms employed in the PG&E case submitted their detailed time and expense entries to the Office of the U.S. Trustee in electronic form. The electronic transmission of fees expedited the review process, afforded the opportunity for in-depth analysis, and resulted in the ability to provide the court and interested parties with a comprehensive overview of the fees incurred in the case.

- "Focus Areas"

The Office of the U.S. Trustee defined certain focus areas which generally corresponded to the substantive billing matters and key issues which arose in the case. Using the professionals' billing categories when available and extracting information by sorting techniques when not readily available, the Office of the U.S. Trustee combined the firms' fees associated with each focus area to approximate the overall cost of each matter.

For certain professionals including the investment bankers, the U.S. Trustee allocated their fees based on other professional team member's focus during a given period. Certain one-time applicants' fees were allocated almost entirely to the PG&E dis-aggregation plan based on the initial description of their services. Celerity Consulting's \$20 million in fees was allocated by the U.S. Trustee between bankruptcy and non-bankruptcy matters based on the firm's description of its various contracts with PG&E.

Exhibit D and supportive Exhibits D-1 through D-5 provide the detailed analysis and special allocations made to arrive at fees by focus area.

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Based on the method employed by the Office of the U.S. Trustee, the fees incurred from inception of the case (4/6/01) to the effective date of the plan (4/12/04) in various key matters in the case are as follows:

FOCUS AREA (As defined by U.S. Trustee)	Inception of Case to Eff. Date of Plan (4/6/01 - 4/12/04)		Final Billing Period (12/03 - 4/12/04) Includes 1 Time Applicants	
	Hours	Fees	Hours	Fees
Original Impasse - PG&E, CPUC, et al	56,841.9	\$17,777,222	1,060.8	\$ 374,700
<i>Above includes Federal Filed Rate Case</i>	20,992.9	\$5,806,757	74.6	24,199
PG&E's Disaggregation Plan	316,584.1	\$57,716,112	218,937.6	20,287,255
<i>Above includes Preemption Appeal(s)</i>	6,112.9	1,840,458	115.6	26,928
Confirmation Related Discovery	27,738.1	7,390,777	Included in Settlement Plan Below	
CPUC's Plan (through 7/02)	2,375.4	1,010,195	0	0
Joint CPUC/OCC Plan (8/02 - 3/03)	8,204.6	13,535,840	0	8,450,000
<b>Total, for Earlier Competing Plans</b>	<b>354,902.2</b>	<b>\$79,652,924</b>	<b>218,937.6</b>	<b>\$28,737,255</b>
<b>The Settlement Plan, Trial, CPUC hearings, &amp; Appeals</b>	<b>19,975.9</b>	<b>30,476,220</b>	<b>5,390.65</b>	<b>23,969,915</b>
Qualifying Facilities/Producers	12,156.7	3,583,428	569.3	200,174
Other Regulatory Matters	72,279.0	20,440,411	7,485.1	2,419,699
<i>Above includes FERC Refund Proceeding</i>	38,343.3	10,533,802	3,294.8	1,108,762
Claims Analysis, Review & Resolution	31,535.0	7,878,262	3,708.8	1,085,073
General Bankruptcy Matters	40,116.7	9,022,332	2,844.2	675,287
Creditor Committee Alternatives	422.9	210,572	0	0
Creditor Committee Matters	4,490.8	2,190,113	138.8	76,258
CalPX Litigation - Kent Harvey	310.9	101,208	310.9	101,208
Innisfree, DF King, Berger & Assoc.	N/A	3,572,894	N/A	2,986,818
Auditors-Deloitte, Vantage & Mah	4,258.5	4,172,304	4,258.5	4,172,304
Celerity Consulting (Non-Bankruptcy)	99,169.5	8,024,556	99,169.5	8,024,556
Heller Ehrman - Contingency Fee Matter	5,949.7	\$1,500,000	5,949.7	1,500,000
Success Fees - Subject to Further Hearings	N/A	28,751,037	N/A	28,751,037
503(b) Motions - Subj. to Futher Hearings	53,075.7	24,173,597	53,075.7	24,173,597
Other Matters (including General Operations)	20,236.2	7,024,471	1,940.5	828,801
<b>TOTAL</b>	<b>775,721.6</b>	<b>\$248,551,551</b>	<b>404,840.0</b>	<b>\$128,076,682</b>

- **Key Events during the Final Billing Period (December, 2003 - April 12, 2004)**

In the Bankruptcy Court.

On December 12, 2003, Judge Montali issued a Memorandum Decision approving the settlement agreement and overruling objections to confirmation of PG&E's settlement plan. Judge Montali indicated he would enter a separate confirmation order confirming the reorganization plan provided that the CPUC approved the settlement agreement.

At the CPUC.

On December 16, 2003, the Utility and The Utility Reform Network (TURN) announced a successful conclusion to 11<sup>th</sup> hour negotiations by filing joint reply comments with the CPUC recommending that the Peevey Alternate 2 be modified to allow for the use of securitized financing backed by a dedicated rate component to refinance the regulatory asset which would be created as a condition of the settlement agreement. The Utility and TURN estimated that the new financing proposal would reduce ratepayer costs by about \$1 billion. The Utility's parent - PG&E Corp - further agreed that it would not seek reimbursement from the Utility for the \$128 million in professional fees it had incurred as of September 30, 2003 in the Utility's reorganization. The parent's waiver of this request would increase the amount of cash available to the Utility to pay its creditors thereby lowering the amount of required financing.

On December 18, 2003, the CPUC voted 3-2 in favor of the proposed settlement agreement as recommended by the Utility and TURN. On December 19, 2003 the CPUC issued its decision. Commissioners Lynch and Wood dissented. On the same day, the settlement agreement was executed by the CPUC, the Utility and the parent PG&E Corp. The CPUC decision stated that it would formally request the introduction of the legislation necessary to implement the dedicated rate component of the regulatory asset financing.

In the Bankruptcy Court.

On December 19, 2003, the Utility, its parent and the PG&E creditors' committee filed a modified plan with the bankruptcy court incorporating the terms of the modified settlement agreement and the CPUC's decision. On December 22, 2003, Judge Montali issued an order confirming the Utility's plan of reorganization.

On December 31, 2003, the City of Palo Alto and CPUC Commissioners Lynch and Wood filed notices of appeal of the bankruptcy court's confirmation order electing to have their separate appeals heard in the U.S. District Court for the Northern District of California.

On January 5, 2004, Judge Montali signed findings of facts and conclusions of law and issued an amended Memorandum Decision approving the settlement agreement.

At the CPUC.

On January 20, 2004, the City of Palo Alto, the City & County of San Francisco and Aglet Consumer Alliance separately filed applications at the CPUC requesting that the CPUC rehear and reconsider its 12/19/03 decision approving the PG&E Settlement Agreement.

In the Financial Markets

On March 5, 2004, PG&E entered into credit facilities borrowing \$2.9 billion as it worked toward implementing the financial aspects of its reorganization plan.

At the CPUC.

On March 16, 2004, the CPUC denied the applications for rehearing of its 12/18/03 decision approving the settlement plan.

In the Financial Markets

On March 18, 2004, PG&E entered into an underwriting agreement with UBS Warburg LLC and Lehman Brothers as exclusive book runners and lead managers and priced a public offering of \$6.7 billion in first mortgage bonds. PG&E agreed to pay an underwriting fee of \$43,475,000.

On March 23, 2004, PG&E closed its public offering of \$6.7 billion in first mortgage bonds, the proceeds of which would be utilized to pay creditor claims pursuant to the reorganization plan.

In the Bankruptcy Court.

On March 26, 2004, PG&E, its parent, and the Committee of Unsecured Creditors advised the Bankruptcy Court that PG&E had satisfied the conditions necessary to effectuate its reorganization plan.

On April 12, 2004, PG&E's reorganization plan became effective and PG&E emerged from Chapter 11. PG&E paid approximately \$8.4 billion in cash to creditors holding allowed claims and placed approximately \$1.8 million in escrow pending resolution of disputed claims.

**Appeals Ongoing after the Effective Date of the Plan**

At the California Court of Appeal. On April 15, 2004, the City and County of San Francisco ("CCSF") and Aglet Consumer Alliance filed separate petitions with the California Court of Appeal for the First Appellate District in San Francisco requesting a review of the CPUC's 12/19/03 decision approving the PG&E settlement agreement and the CPUC's denial of their applications for a rehearing. On July 16, 2004, three California state senators filed a request for permission to file a brief in support of the CCSF and Aglet petitions. The California Court of Appeal has not acted yet on the petitions.

Appeals to the Bankruptcy Court's Confirmation Order. On July 15, 2004, the U.S. District Court dismissed Commissioners' Lynch and Woods appeal of the Bankruptcy Court's confirmation order. On July 23, 2004, Commissioners Lynch and Woods appealed to the Ninth Circuit. The City of Palo Alto's appeal remains pending in the District Court.

At the U.S. Supreme Court. In February 25, 2004, the Ninth Circuit Court of Appeals denied PG&E's petition to rehear the Ninth Circuit's November 19, 2003 "preemption" decision.<sup>1/</sup> PG&E had requested a rehearing before the three judge panel that issued the decision as well as an en banc hearing. After seeking a series of extensions, PG&E et al filed a writ of certiorari on July 23, 2004 with the U.S. Supreme Court.

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<sup>1/</sup> The Ninth Circuit's 11/19/03 preemption decision can be downloaded by going to <http://www.ce9.uscourts.gov/>, clicking on Ninth Circuit Court of Appeals website, going to November, 2003 and clicking on 11/19/03 02-16990.)

### **Attached Exhibits**

- A Summary of Fees - All Firms
- B Percentage Changes in Fees from Current Billing Period vs. Previous Billing Period s (Primary Professionals)
- C Most Active Attorneys/Accountants: December, 2003 - April 12, 2004
- D Summary of Fees - by Focus Areas

#### **Supportive Schedules to Exhibit D**

- D-1 Focus - Impasse between the Utility & the State
  - D-2 Focus - Competing Plans, Discovery & Trials
  - D-3 Focus - PG&E's Plan
  - D-4 Focus - Qualifying Facilities, Producers, Suppliers
  - D-5 Focus - Other Areas Including Claims, General Bankruptcy Matters, Other Regulatory
- 
- E Howard, Rice, Nemerovski, Canady, Falk & Rabkin, PG&E's Bankruptcy Counsel
    - E-1 Howard Rice by Focus Area
    - E-2 Howard Rice Services Performed by Attorney
  - F Heller Ehrman White & McAuliffe LLP, PG&E's Special Regulatory Counsel
    - F-1 Heller by Focus Area
    - F-2 Heller by Attorney
  - G Cooley Godward LLP, PG&E's Special Counsel
    - G-1 Cooley by Focus Area
    - G-2 Cooley by Attorney
  - H Milbank, Tweed, Hadley & McCloy LLP, Creditors Committee Counsel
    - H-1 Milbank by Focus Area
    - H-2 Milbank by Attorney
  - I FTI Consulting, Inc. (formerly Pricewaterhouse), Creditors Committee Financial Advisor
    - I-1 FTI by Focus Area
    - I-2 FTI by Accountant